

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Wickenburg Unified School District No. 9

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 21, 2005

Governing Board
Wickenburg Unified School District No. 9
40 West Yavapai Street
Wickenburg, AZ 85390-3201

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2004, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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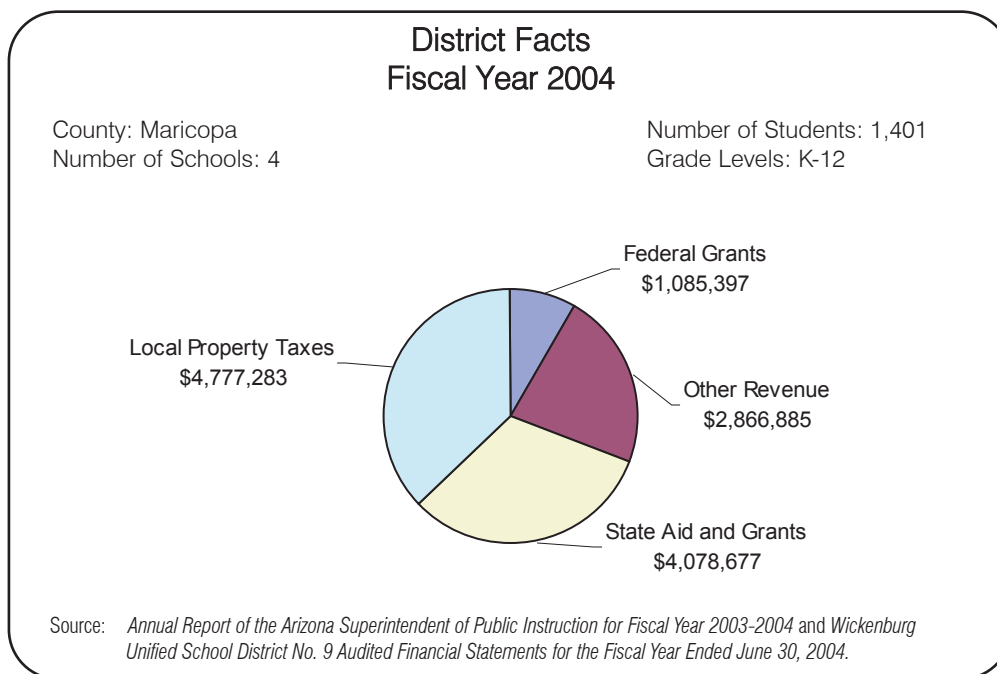
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INTRODUCTION

Wickenburg Unified School District No. 9 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$12.8 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District's controls over auxiliary operations and student activities monies should be strengthened

Auxiliary operations monies are monies raised in connection with bookstore and athletic activities. The District also holds student activities monies raised through students' efforts for safekeeping. The District is responsible for establishing oversight

As a result of poor controls, there was \$23,000 in unsupported checks made payable to the employee handling the high school's auxiliary operations and student activities accounts.

for these monies to ensure that proper procedures are followed for collecting and spending them. However, the District did not establish proper controls over auxiliary operations and student activities monies. As a result, the District found that over \$23,000 in unsupported checks were paid to an employee in charge of the high school's auxiliary operations and student activities bank accounts. The accounting records and other supporting documentation for these accounts appeared to have been destroyed or taken. Currently, a former employee is being prosecuted by local authorities. Additionally, at the elementary school, auxiliary operations monies were used to purchase staff t-shirts and soda for vending machines in the teachers' lounge.

Further, the District did not separate cash-handling and recordkeeping responsibilities for auxiliary operations and student activities at both the middle and high schools. Also, the District did not update its computerized accounting system for transactions related to the high school's auxiliary operations and student activities, and did not reconcile the bank accounts. Finally, the District did not provide a monthly report of student activities to the Governing Board.

Recommendations

To help strengthen internal controls over auxiliary operations and student activities monies, the District should:

Accounting Records

- Separate cash-handling and recordkeeping responsibilities between employees. If one employee is responsible for multiple functions, a district manager or supervisor should review and approve summary reports and reconciliations.
- Prepare and retain appropriate documentation, such as cash receipts, purchase requisitions, purchase orders, receiving reports, vendor invoices, and bank statements for all auxiliary operations and student activities receipts and expenditures/disbursements.

USFR §§X-G and X-H provide general policies and procedures for auxiliary operations and student activities.

- Record all auxiliary operations and student activities transactions in the District's computerized accounting records in a timely manner.
- Prepare and submit a monthly report of student activities cash receipts, disbursements, transfers, and cash balances to the Governing Board.

Receipts

- Prepare prenumbered and numerically controlled cash receipt forms for monies received.
- Prepare and retain daily sales reports or cash collection summaries to reconcile sales to cash collected for all auxiliary operations monies received.
- Prepare cash collection or activity reports to document and reconcile cash collections and tickets or items sold for student activities events. If it is not practical to sell tickets or count items before and after the sale, such as for bake sales, clubs should prepare cash collection reports to document cash collected.
- Deposit cash receipts intact daily, if significant, or at least weekly in the appropriate bank accounts. The auxiliary operations bank account should include monies raised in connection with school bookstores and athletic activities. Monies raised through students' efforts in connection with activities of student organizations, clubs, school plays, or other student entertainment should be deposited in the student activities bank account.

Expenditures/Disbursements

- Prepare and retain purchase orders that are approved by an authorized employee prior to ordering goods and services.
- Make expenditures from the auxiliary operations account only for appropriate purchases.
- Make disbursements from the student activities account only if approved by the clubs and documented in the clubs' minutes. Checks must be signed by either the student activities treasurer or an assistant student activities treasurer and a person authorized to sign by the Governing Board.

Reconciliations

- Prepare complete and accurate written bank reconciliations monthly for the auxiliary operations and student activities bank accounts to verify the accuracy of bank and book balances and make all necessary corrections.

- Assign an employee not responsible for handling cash or issuing checks to prepare these bank reconciliations. If this is not possible, another district official should review and approve the reconciliations. The bank reconciliations should be signed and dated by the preparer and reviewer, if applicable.

The District must follow competitive purchasing requirements

The District may not have received the best value for the public monies it spent.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. Specifically, the District did not analyze the known requirements for items to be purchased. As a result, the District did not always issue invitations for bids or requests for proposals for purchases that exceeded the competitive sealed bid threshold. Also, the District did not always obtain written or oral price quotations for purchases requiring them.

Recommendations

To strengthen controls over purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should:

- Analyze the known requirements for an item or a collection of items that, in the aggregate, may result in purchases above the applicable competitive purchasing threshold.
- Issue invitations for bids or requests for proposals for purchases exceeding \$33,689.
- Obtain written price quotations from at least three vendors for purchases estimated to cost at least \$15,000 but not more than \$33,689, and oral price quotations from at least three vendors for purchases estimated to cost at least \$5,000 but less than \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

School District Procurement Rules provide the requirements for competitive sealed bids for the purchase of goods and services in excess of \$33,689.

USFR guidelines provide the requirements for:

- Written price quotations for purchases between \$15,000 and \$33,689.
- Oral price quotations for purchases between \$5,000 and \$15,000.

The District should improve accountability over its Classroom Site Fund monies

The Classroom Site Fund, administered by ADE, was established in fiscal year 2002 to account for the portion of state sales tax collections provided to school districts as an additional source of funding for teacher salary increases and other specified maintenance and operation purposes. Districts must correctly allocate, separately account for, and spend Classroom Site Fund (CSF) revenues in accordance with Arizona Revised Statutes (A.R.S.). However, the District did not properly allocate CSF revenues among the three separate funds. Also, the District exceeded its budget for CSF 013 (Performance Pay) by \$18,000.

The District exceeded its budget in one Classroom Site Fund by \$18,000.

Recommendations

The District must monitor and ensure that CSF monies are allocated correctly and used in accordance with A.R.S. §15-977. Specifically, the District should allocate Classroom Site Fund revenues in the following manner: 20 percent to Fund 011—Classroom Site (Base Salary); 40 percent to Fund 012—Classroom Site (Performance Pay); and 40 percent to Fund 013—Classroom Site (Other). In addition, the District should ensure that the Classroom Site Fund Budget Limit and the statutory percentages of the revenues in the three individual CSF funds are not exceeded.

Guidance for the CSF is provided in USFR Memorandum Nos. 194 and 212.